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UNCLAS BRATISLAVA 000031

SIPDIS

DEPT PASS TO USTR FOR RDRISCOLL
TREASURY FOR CHRISTOPHER GREWE
USDOC FOR MROGERS AND STIMMINS

E.O. 12958: N/A
TAGS: ECON EFIN LO EZ
SUBJECT: SLOVAKIA LOSES USD 867 MILLION ARBITRATION WITH CZECH BANK

¶1. Summary. An arbitration court has ruled in favor of the Czech bank Ceskoslovenska Obchodna Banka (CSOB) in its claim against Slovakia and ordered the GOS to pay the bank SKK 24.7 billion (USD 867 million). CSOB's claim dates back to 1993, when it provided a loan to a special state agency set up to assume CSOB's bad debts as part of a division of assets between Slovakia and the Czech Republic as the successor states of the former Czechoslovakia. The GOS has not decided whether it will appeal the ruling. The GOS had already established a reserve fund to help pay for eventual settlement of this case, which should help minimize any adverse effects it might have on the GOS's future spending plans and its ability to qualify to join the Euro zone in
¶2009. End summary.

¶2. On December 29, the World Bank's commercial arbitration tribunal, the International Center for Settlement of Investment Disputes (ICSID), ruled in favor of CSOB in its claim against Slovenska Inkasna (SI), the Slovak state-owned debt factoring firm. The arbitration panel ordered the GOS to make one-time payment of USD 867 million to settle the dispute. SI was formed in 1993 following the split of the former Czechoslovakia and subsequent division of the federal property. It was created to help dispose of a portion of CSOB's bad loan portfolio and CSOB issued SI a loan to finance its activities. However, SI only repaid 15 percent of its SKK 10 billion (USD 300 million) loan before ceasing payments. Since its privatization in 1999, CSOB is a unit of Belgium's KBC Bancassurance Holding NV.

¶3. According to CSOB, since 1995, its claim has risen to SKK 32.4 billion (USD 1.14 billion) including interest and lost profit. However, the ICSID tribunal's ruling awarded CSOB the aforementioned SKK 24.7 billion (USD 867 million). Interestingly, in order to help CSOB's privatization, the Czech government agreed in 1998 that if CSOB lost the dispute with Slovakia, the Czech Republic would pay it SKK 30 billion. Media sources have speculated that the ICSID ruling also means that the Czech government should pay SKK 5.3 billion (USD 186 million) to CSOB in compensation because it received less than the SKK 30 billion the Czechs had agreed to pay.

¶4. The Slovak MOF said it would not elaborate on the issue until after a thorough analysis of the ruling by its lawyers, but it plans to submit a list of options to the Slovak cabinet next week. If the GOS does not appeal the decision, paying the claim could be counted against its 2004 budget deficit and increase it to 5.8 percent of GDP from a planned 3.9 percent. However, Finance Minister Ivan Miklos stated that Slovakia had already established a SKK 16 billion (USD 561 million) reserve fund to help offset this potential loss. Other MOF officials have said that the ICSID decision is "not a tragedy." In addition, revised figures for Slovakia's 2004 budget deficit show that the shortfall could be revised downward by more than SKK 8 billion (USD 280 million). The MOF has stated that it will not issue new foreign debt to cover this expense and CSOB has even said it would consider allowing Slovakia to pay the claim in installments over several years. The GOS seems generally unconcerned that this decision will adversely affect its future budgetary plans, or prevent it from reducing its budget deficit below 3 percent of GDP by 2007 in preparation for adopting the euro by 2009.
THAYER

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